15-May-2019

Regions Financial Corp. (RF)

Barclays Americas Select Franchise Conference

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MANAGEMENT DISCUSSION SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

I'm Jason Goldberg, I cover the U.S. large cap banks. I'm here at Barclays. We have our final three bank speakers this morning in Regions, M&T and then Bank of New York Mellon. I'm very pleased to have Regions up next after a fierce hiatus. We're very glad to have them back at the conference.

From the company we have John Turner, who took over as CEO the middle of last year; and David Turner, who I think is the longest standing CFO of the top 20 banks or top – first or second longest. We'll have to check that stat.

With that, I'll turn it over to John.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

He's the longest serving in Regions to be sure. Well, good morning and thank you, Jason. We're glad to be here, have the opportunity to share some information with you about Regions. Before I begin, we will be making some forward-looking statements and so I'll share the disclosure with you.

For those of you that don't know Regions, we're headquartered in Birmingham, Alabama. Our footprint spans across 15 states in the Southeast, Midwest and Texas. We're $129 billion bank. We're the 15th or have the 15th largest deposit base in the U.S. We're an S&P 500 company. We're a very traditional commercial bank offering Consumer, Commercial and Wealth banking services. We operate approximately 1,450 branches and 2,000 ATMs.

Our footprint, as I said, spans 15 states across the Southeast, Midwest and Texas. 86% of our deposits are in seven Southeastern states; Florida, Alabama, Mississippi, Tennessee, Louisiana, Georgia and Arkansas. We operate in 176 distinct MSAs and 90 counties that don't actually have an MSA. We're the largest bank headquartered in the Gulf South region.

Approximately 70% of our deposits are in markets where we have top 5 or better market share, and approximately 70% of our deposits, totally coincidentally, are in markets where we don't have any significant money center bank competition. So, our footprint is very diverse. It's very granular. We think that it gives us a competitive advantage.

We're also in some very fast-growing markets. So, we contrast our core markets with our growth markets. Of our top 30 markets, 60% of them are growing faster than the U.S. population is growing. And of the 30 markets, 15 markets of the 30 markets, we have top 5 or better market share in. We're investing heavily in Atlanta, in Orlando, in Houston, just three examples of growth markets where we want to continue to leverage our presence.

Our footprint has some very compelling growth characteristics. If you look at where job growth in the U.S. has occurred, 42% of all jobs been created over the last few years have been in our footprint, 51% of population growth. Approximately 35% of the country's GDP is located within our footprint. And, roughly, 6 out of the 10 most desirable markets to retire in are cities or markets that we have a significant presence in.

And so if you think about again the composition of our markets being core markets, where we have limited big bank competition, growth markets where we see a real opportunity to grow, we think markets are a strength of our franchise.

Our deposit base is really where our franchise value resides. Roughly two-thirds of our deposits are consumer deposits. Approximately 60% of those deposits are on accounts that have been with Regions for 10 years or more. We think primacy is very important. We believe 93% of our customers maintain – our consumer checking account customers maintain their primary operating account with us. As a result of that, we have very granular, loyal and low-balance deposits, which again we think is one of the things that creates an advantage for us.

We are continuing to grow consumer checking. Despite closing 15% of our branches over the last five years, we have grown consumer checking accounts for seven years in a row. Last year, we saw consumer demand deposits grow by over 4%, again, we believe a proxy for the quality of our deposit-gathering capabilities. And importantly, half of the accounts that we opened last year were for individuals aged 30 years and younger. So, our offering continues to appeal, we believe, to a wide range of customers and bodes well for the future.

We think about the net interest margin. We've been doing some – when we think about the net interest margin, our deposit base is really the core of our asset sensitivity and provides for balance sheet profitability. Through primarily using forward starting hedges, we positioned our balance sheet to reduce the variability of our net interest margin and to stabilize net interest income. Over the next three years, we said we believe we can deliver a margin of between 3.4% and 3.7%. Now, the underlying assumptions that we've used to get to that scenario are on this slide, and I encourage you to look at them.

Now, we think we have limited downside risk to our margin even in a significantly adverse scenario as the result of the measures that we've already taken. So, what happens if rates don't change, if they remain effectively where they are today? Again, we've added a current range to the slides so you can see sort of what our assumptions around the margin are. And we'd expect some near-term pressure on the margin, but ultimately believe that we can deliver a margin at or near the 3.5% margin that we delivered in 2018.

If you think about a quarterly cadence, just given deposit repricing, we'll probably see some downward pressure on the margin in the near term. But as deposits stabilize; as we continue to remix our deposit base; as we see a little loan growth; additionally, we expect NII to rise and the margin to come back toward the end of the third and fourth quarter of 2019, and I'm sure that's a topic that we can discuss, we are still projecting growth in total revenue of 2% to 4%, and believe we'll deliver that in 2019.

Improvements in our risk culture have been really important to us. One of the great lessons we learned coming out of the great recession was the importance of balance and diversity. So, we've got a very broad framework of concentration risk management in place, managing risk of – geographic risk, industry risk, portfolio risk. We have a comprehensive Risk Appetite Statement approved by our board that guides the decisions we make around risk.

And what we're seeking to do is to reduce the variability in our results and to deliver consistent, sustainable results through every economic cycle. We're certainly not perfect, but we believe we've made significant improvement in our different regions than the Regions of 10 years or 12 years ago.

Now, our focus is on risk-adjusted returns. And we talk often about the importance of client selectivity, sound underwriting, proactive credit servicing and, ultimately, being paid for the risk that we take. And we think that as a result of that, we're well-positioned for the next downturn in the economy whenever that may occur.

We talk often also about the need to – we don't need to grow for growth's sake. We want to make sure that we continue to ensure that as we grow our business, it is quality growth and is contributing to the overall profitability of the company on a risk-adjusted basis.

Focus on risk-adjusted returns has been an important aspect of the things that we've done to improve our business over the last few years. We've made some difficult decisions: Exiting the insurance business; exiting indirect auto; reducing the size of some of our portfolios; reallocating capital within the bigger parts of the larger exposures, particularly in our portfolios, all to reallocate that capital into better earning opportunities, whether it'd be acquisitions like BlackArch Partners or First Sterling, a low-income housing tax credit syndicator that we acquired; the acquisition of mortgage servicing rights; investment in talent and capabilities, all to improve the returns in our business. And we think that that's had a meaningful impact both on our results and on our culture.

In late 2017, we introduced an initiative we called Simplify and Grow. It was not a program, so to speak. It really was about trying to develop a culture of continuous improvement. How do we get better at what we do every day? How do we make banking easier for our customers? How do we accelerate revenue growth? How do we improve efficiencies and effectiveness through better processes and procedures?

Now, I'll tell you, through the first 15 to 18 months, we think we've made really good progress streamlining the organization, reducing spans and layers, creating greater lines of accountability and responsibility, growing revenue while maintaining expenses relatively flat, making investments in people and technology. We think we're just beginning to see the benefits of our efforts.

We initially identified over 45 initiatives. We've completed approximately 12 of those. We've got still – we think a lot of runway here. And this is again something that is got to be cultural, got to be an important part of what/who we are because we believe continuing to become more efficient, more effective, will be an imperative for the industry.

A good technology strategy is key to our simplifying grow initiative and whether we're focused on improving the customer experience, we have teams of bankers working on our mobile app as an example or fully digitizing the consumer lending process. Our teams are passionate about how do we make banking easier for our customers.

We've also got to use technology through the use of data and analytics to influence and drive our business and through the use of artificial intelligence to again improve processes and, ultimately, the quality of our operation, whether it be in BSA/AML or other places that we have our call center where we have redundant activities. The use of artificial intelligence, the use of data and analytics in our branches, in our call center, will be, have been, key to the improvements we've already made.

And then finally, we will continue to invest in our core infrastructure. We're often asked, do we think we have the scale to compete with larger banks? And our answer is unequivocally yes. We think we have a fairly simple operating platform. It's not complex. We have one branch operating system, one consumer loan system, one deposit system.

As we make improvements to our core technology, it's not nearly as complex or as complicated as some of the larger banks. And as a result of that, combined with the people that we continue to hire, the flatness of our organizational structure, the agility with which we get things done, we think we very much can be competitive.

We're asked, well, how do we know? Well, we think that customer acquisition is a proxy for how well we're doing. So, we continue to grow deposit accounts. We continue to grow consumer deposits. We get great favorability scores from J.D. Power and others and as we look at those things as confirmation that we can in fact compete, we believe that we do and we do absolutely have the scale to be competitive with our larger competitors.

We're going to invest $625 million in technology in 2019, roughly 11% of revenue. About half of that investment will go to maintaining our systems and our technology, but importantly, approximately 42% of that investment will go for new innovation, new technology, new processes and procedures that will make banking easier for our customers and will continue to drive efficiency and effectiveness throughout the organization.

In terms of how we think about capital, our capital priorities are unchanged. We want to first support organic growth. Second, we want to pay a consistent and sustainable dividend of between 35% and 45% of earnings. We want to make investments in our future and we think about that in two dimensions, bank acquisition and non-bank acquisition. And we have been actively pursuing non-bank acquisition opportunities. I mentioned a few earlier; mortgage servicing rights, M&A, an M&A advisory capability, low-income housing tax credit syndicator. We'll continue to look for opportunities to make investments in those non-bank type entities that will help improve our capabilities, will help us to grow and diversify revenue and importantly, meet unmet customer needs.

With respect to bank acquisition, I think we've been consistent in that. We don't have interest today. The economics do not favor a bank acquisition from our perspective. More importantly, bank acquisition is disruptive. We think our plan will deliver outstanding results for our shareholders and anything that would take us off our plan, we think would be a mistake. And so, our focus is on executing our plan which again we think is pretty straightforward, pretty simple. If we don't have opportunities to acquire, we've paid a good consistent and sustainable dividend which supported organic growth and we have excess capital. Then lastly, we'll continue to return it to our shareholders as we have over the last number of years.

So, we've shared some near-term and longer term expectations. We have modified our expectations for loan growth just given where we began the year. We now believe that loan growth will come in somewhere kind of in low to mid-single digits; adjusted total revenue growth of 2% to 4% over 2018; we think expenses will be relatively stable; net charge-offs somewhere between 40 basis points and 50 basis points as we continue to see credit quality normalize, although it's still really, really good; and then finally, an effective tax rate of 20% to 22%. Longer term, we've expressed our intent to deliver an adjusted return on tangible common equity of 18% to 20%; an adjusted efficiency ratio of better than 55% for the full-year 2021; and charge-offs somewhere between 40 basis points and 65 basis points over a three-year period.

And so in summary, we think our markets, the deposit base that we have, provide a real competitive advantage. We believe that we have significantly improved our overall credit culture and eliminated the variability that previously experienced if you were an investor in Regions. We think we've built a credit risk profile that will perform consistently through any economic cycle.

And then finally, when combined with the work that we're doing to continue to simplify our business and to prudently and soundly grow our business, we think Regions represents an attractive investment opportunity over time. David Turner, our CFO, is with me and happy to answer any questions that you have for us. Thank you.

QUESTION AND ANSWER SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Great. Thank you, John. I guess you mentioned low- to mid-single-digit loan growth for 2019. On the earnings call, you kind of were talking, too, about low-single-digit loan growth for the year. And you're kind of, I guess, reluctant at that point to update it. I guess maybe just talk to kind of what caused kind of the increase to be maybe a little bit higher and then kind of where you're kind of seeing the strength.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Yes. So, out of the gate, I think we said loan growth in the first quarter – fourth and first quarter was a little faster than we anticipated. It was broad-based. We really saw it across all of our businesses and portfolios. Our line utilization was up fairly dramatically, particularly relative to the first quarter of prior years. And as we enter the quarter and thought about what that meant for the balance of the year, it became pretty apparent that if loans didn't grow any more through the year that we'd probably still going to deliver somewhere between low- and mid-single-digit loan growth. And so, as a result of that, we have modified our expectations.

We're still going to manage loan growth carefully. I think we perform best when loans grow at about the pace of our core deposits. And what you saw in the first quarter was because we had a little unexpected loan growth, actually, loans grew faster than core deposits and so we funded that loan growth with more expensive deposits and that's not where we perform best.

And so, we want to continue to optimize our business, continue to optimize the quality of our loan portfolio and our deposit base, and we will do that through the balance of the year. So, growth will likely be a little more measured, but we do believe in that kind of low- to mid-single digit range.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

I guess – helpful. And then, I guess, in the first quarter, right, we did see an uptick in deposit costs as you funded maybe stronger-than-expected loan growth. So, maybe talk to kind of deposit outlook from here. Do you have the ability to kind of replace some of those more expensive deposits? And, I guess, one of the themes coming out of the conference was just the kind of continued uptick in deposit costs despite the fact that the Fed is on hold, given you maybe have a better deposit base than others, are you seeing a similar trend with that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, Jason, the first quarter, as John mentioned, we had loan growth a little quicker than we thought. So, we had decisions how we were going to fund that. We could have done it wholesale. We could have done it with cash flows from the securities book. We could have gone back to our customers and given them an opportunity with their excess cash to earn a little better yield, and that's what we chose. That drove our deposit beta up quite a bit in the quarter. We thought that was the cheapest, best alternative for us. We don't see that kind of loan growth happening. As John mentioned, we want to get our core deposit growth coming along to help fund.

Your question on deposit costs, so we have a really good deposit franchise. We expect two things to happen; one, not to be as dependent on those deposits that I just mentioned, those higher-cost deposits to fund loan growth. At the same time, history has told us that deposit costs continue to increase about 12 months after the last tightening. So, last tightening, December, so you should see a little bit of pressure on that. It diminishes over time. Part of that comes from mix change. You should continue to see some mix coming out of NIB into interest-bearing checking and that will be a bit of a driver.

But all that considered and loan growth and everything that we just talked about, we still feel confident that, for the year, we have a net interest margin in the 3.50% range. In the first quarter we were 3.53%, down a couple of points. As John mentioned, that will continue to have pressure on early part of this next quarter and then, at the back end of the year, pick back up a little bit.

As you've heard us talk at Investor Day, because our core, our low-cost deposit base, that creates a little bit more asset sensitivity for us. So, we have to enter into hedges that help protect us and we've put a lot of hedges on forward starting that began in 2020. So, we didn't have as much protection on 2019 and the reason for that is we believe, and still do, that a rate cut in 2019 is not likely. But as the economy continues to slow down, our expectations slow down, we would have some protection in 2020, 2021 and so forth to protect our net interest margin and that's what the 3.40% to 3.70% net-ish margin range is all about, taking out the volatility. So, from quarter to quarter, you could see some anomalies but we're really focusing on the year.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Helpful. Yesterday, BB&T presented and obviously undertaking a really big merger with SunTrust. They're going to change the name [indiscernible] (00:22:32) this quarter, you have moving the headquarters of the combined company to either of the current headquarter cities, and you put up your map, they put up their map and tremendous amount of kind of overlap. Can you talk to just potential opportunities you have from disruption whether it's customers or potential employees and just maybe plans you have in place to maybe capitalize on some of that potential disruption?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Well, it's something we discuss regularly, as you might imagine. Two very good banks, two really good leadership teams, putting those banks together will result in an awfully good outcome, but it will be – likely be challenging. We're the product of a merger of equals and so we understand some of the complications associated with that.

And as a result, I'd say there likely will be associate and customer disruption and all of our teams are focused on what we can do to potentially take advantage of that, whether it be recruiting associates or trying to win customers.

There are some markets like Atlanta and Orlando as an example where there should be particularly significant amount of opportunity, if you will. That's good news. Bad news is we have lots of competitors and they are thinking about the very same things. So, we understand we're going to have to execute well in order to benefit from the disruption that might occur. At the same time, we're knowledgeable that BB&T and SunTrust are going to do everything they can to ensure that there's a limited amount of activity. It should be – I think there will be a certain number of customers that are in play and we like to win them.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

I guess on the flip side, you mentioned – I think the words were, we're not currently interested in bank acquisitions. I guess at some point you just kind of dropped to we're currently in any – do you become interested and what would – what get you interested, just given that is less number of buyers in your region and presumably a lot of smaller banks don't have the scale that Regions has so could create opportunities.

John M. Turner, Jr. A
President, Chief Executive Officer & Director, Regions Financial Corp.

Yeah. We currently doesn't have any sort of timeframe associated with it. I think it's important for us to earn the right to acquire through the execution of our plan. And if we do that, we deliver the 18% return on tangible common that we believe we can as a result of our plan. We should see the benefits of that in our stock price. And if we do, then our – the quality of our currency improves and the economics also improve. Having said that, we're not interested in M&A for the sake of M&A. We have a 15-state footprint. We're in some of the best markets in the country, plenty of opportunity to continue to invest in Regions in the markets that we operate in. And that will be our primary focus.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

And I guess the flipside is that you mentioned kind of 15 states although the core franchise is in smaller number than that. I guess, any thoughts when you've seen other banks do this to kind of further rationalizing your franchise and maybe exit some of those that kind of tertiary markets that you're in and kind of double down the efforts on the core franchise? Or is it, with the advent of some of these digital banking products, those kind of tertiary markets actually now become more viable to grow in.

John M. Turner, Jr. A
President, Chief Executive Officer & Director, Regions Financial Corp.

Yeah. I think we constantly evaluate all of our businesses, our portfolios, our markets to ensure we're getting an appropriate return and to the extent we're not, we've got to be willing as we did with insurance or indirect auto to decide to exit. The same applies for markets.

We're making investments in St. Louis because it's a sizable market. We have number six market share. We think that that the opportunity there is significant. We have reinvested or reorganized our franchise there. And as a result of the investment we've made, we now have access to more than 10%, more population and wealth in St. Louis. So that would be an example of somewhere that is a little further from our core southeastern franchise but still a market with a lot of connectivity and opportunity.

We need to think about all of our markets in that context. Can we make additional investment to improve our opportunity? Are we not getting an appropriate return? If not, we should exit. We will, consistent with our plans, we'll close about 100 branches over the next three years. Our intention is to open 75. That might change. We could close more or less, open more or less. But those are to give you some idea about how we think about continually repositioning on our footprint. And again, our focus on risk adjusted returns has got to apply to portfolios, to businesses, to markets, to every aspect of our business.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

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And let me add to that too because it's important. We get this question a lot. Diversification is important to us as well. We live that during the time where concentrations of real estate in Florida and Georgia really hurt us. And so having a footprint, 15 states really, and certain of those away from the [ph] Gulf (00:27:57) South which we love and believe in, but at the same time we want to manage our risk appropriately. So, we think being in those other states really does matter to us and it's about how do we grow those, how can we make those investments really pay off for us. They all are profitable and so it's just optimizing each one of those, that's our goal.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And I guess, John, you've mentioned the exiting of indirect auto. Yesterday, we had a bunch of banks talking about how they're growing the auto business and, obviously, has its ups and downs, but has stuck with it. Maybe talk about your decision kind of why you exited it.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. So, we're first and foremost focused on relationships and relationship-oriented businesses, and businesses that will generate an appropriate return on invested capital. And when you look at the indirect auto business, profit zones do open and close. There have been periods of time when it's been very profitable, other periods when it's not. Currently, it's certainly not for us.

There are banks that are making money in it. I think most of them are taking a little more credit risk to do that. It is not a relationship business. We're not financing auto dealers. We're not – we don't have an expanded relationship with the end customer. And so, from our perspective, there are other things to do with the capital that we had allocated to that business. And as a result it's – because it's not relationship oriented, because we're not getting appropriate return, we're choosing to exit.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I'm going to pause there and see if there's any questions from the audience.

Credit quality has been a topic that really hasn't been a topic I guess at this conference. Clearly, we're several years into this economic expansion. Maybe talk to in terms of what size of portfolio – what parts of the portfolio you're keeping a kind of closest eye on given at some point credit is obviously cyclical and losses will trend back higher?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. So, there are a couple of places I think where we remain focused, more granularly on the restaurants, specifically the fast casual sector. We've seen some weakness there. In the healthcare space, particularly rural hospitals, we've had a healthcare specialization for a long time and have been an active participant in the not-for-profit healthcare sector and we're just seeing some weakness there, as a result of Obamacare there's been some shifting, winners and losers. And so, kept a cautious eye healthcare. Leverage lending, we have about $5.8 billion exposure, approximately 26% of that is sponsor owned and primarily enterprise value-based. And so, that's an area where we're actively managing.

And then [ph] to all three risks (00:31:10), we have – we think high quality shared national credit portfolio but with it is large exposure and while the credit quality is good, it would then take one or two large exposures to create credit problems. But it is nice not to have to come to a conference and talk about credit quality. I hope that that trend will continue for a number of quarters, if not years, for all of us, frankly.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.
A

We had – I'll just add to that. So, we had expectations. John just mentioned to you 40 basis points to 50 basis points charge-offs this year, and we were 38 basis points in the first quarter. And for the three years, we're 40 basis points to 65 basis points of expectation. So, fairly benign expectation even though the economy, again, we forecast 2.5% GDP this year, 2% next year, and 1% after that, so a slowing economy but consumer is healthy, businesses are healthy, even though leverage in both of those is at higher than pre-crisis levels.

The ability to pay for the debt service coverage continues to be very robust and strong. So, outside those few areas John mentioned, we feel credit quality is actually in pretty good shape. And all the work we've done, our credit team, risk management teams have done on concentration risk management since the crisis is going to pay dividends for us in the future.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Yes?

Q

Thanks. Thank you for taking my question. Just I was hoping you might be able to elaborate a little bit on your sort of customer confidence for demand for loans. And it's interesting, the points you make about the population growth in any of the regions that you're in, are you expecting that your customers can actually grow their loans sort of faster than GDP or how are you thinking about it?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Yeah. So, customer confidence is good. I would say our customers are confident but cautious. Obviously, there's a lot of noise day to day coming out of Washington generally, and some concerns around the overall economy. But I've visited, I don't know, 10 or 12 markets over the last couple of months. I've probably met with 50 or more customers in different forums. And customers are consistently optimistic. They had good 2018s. Many of them had the best years they've ever had largely or in some measure as a result of tax reform. 2019 looks good. It's off to a good start. And so confidence is high. We see customers investing in their businesses.

The biggest issue customers have today is workforce. As you talk to customers about why they're potentially not investing or what they might do but chose not to do, it is in some measure limited by their ability to hire and staff whatever it is that they might invest in. So workforce is an issue for the economy. And then tariffs are having some impact but I think it's more sort of broadly the noise associated with all of that that give business some concern, but confidence is good.

And so we'd say, given the markets that we operate in, we would expect to grow sort of with GDP plus a little. If we get growing too much faster than GDP, we think we're probably taking more risk than we should at this point in the economic cycle. Now, we don't know when the cycle ends or when it turns. So what we talk about is let's just do good business every day. Let's focus on quality clients, on sound underwriting, on proactive credit servicing, make sure we know our customers, we're getting paid for the risk that we take. If we do those things, regardless of where we are in the economic cycle, we should see consistent sustainable performance over time. And, again, we don't have to grow a lot to perform well.

We think we can deliver 18% to 20% return on tangible common, we grow loans that are at sort of the same rate we're growing our core deposit, we really – that's when we perform best.

Q

Thank you.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess after repurchasing a lot of stock, your CET1 ratio I guess, what, 9.7%, nearing that 9.5% target that you talked about. I guess two questions is, one, how do we think about capital return now that you're approaching your target? I know CCAR changes a bit this year. And just how should we think about that? And then secondly, is 9.5% the right number or just given how much you've de-risked this franchise, is there an ability to see that number creep lower over time?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, our target is 9.5%. We'll get there in the third quarter just mathematically. So, through June, we're based – all of our capital actions are at last year CCAR. So, as we think about capital return for the capital we generate, our net income, as John mentioned, first and foremost, we'll apply that to organic growth. That's important to us. That'll use up a piece. So, take your low-single digit – middle-digit loan growth, hold 9.5% of that, and that's the piece.

Second would be our dividend. Our dividend expectation is 35% to 45% of income. Today, we're right at 30%. So, there should be an expectation of our dividend increasing to that mid part of the range to maybe the upper end over time. And we would like to find a bolt-on acquisition to help grow noninterest revenue. Those generally don't use a lot of capital but some.

And then the toggle is the share repurchase. We really don't like to borrow stock back. We'd like to invest it back in our business. But if we have that excess capital that we generated, then we will get it back in the form of share repurchases. The beauty of the new regime is that we can manage our capital more freely. So if loans grow a little faster than we thought, then we wouldn't buy back as much stock. Conversely, if loans aren't growing, we would buy back stock because we think 9.5% is the right number for us today.

Now, that is derived mathematically. We started 4.5% regulatory limit. We had 250 basis points of cushion there, a buffer to get the 7%. 7% is our limit that we set internally. The theory is we never want to breach that and ever have to cut our dividend like we had to in a crisis. So with the sustainability of the dividend, that's really important to us.

From that, we look at the risk inherent in our book and that's about 200 basis points. So we get the 9% and we've added a management buffer of 50 basis points on top of that. And just given that we're in the 10th year of an expansion, we can get to our 18% to 20% return on tangible common with that extra 50 basis points in the denominator anyway.

So why not have a little extra dry powder to maybe take advantage of opportunities should they arise, maybe some opportunities to grow loans where others can't because they've gotten themselves in a spot where they can't continue to grow. So, that's really where the 9.5% – so mathematically, yes, Jason, we could bring it down a little bit. We choose not to do so right now because we can meet all the goals that we laid out.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

There's time to sneak in one last one if there is one from the audience?

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

If not, please join me in thanking John and David for their time today.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

Thank you.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

Thank you.